

The Probable Development of Sino-Japanese Trade
1958-1962

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The rapid advance in Sino-Japanese trade since 1951 was halted in 1957 when trade declined seven percent from the 1956 level. This setback was attributed by many Japanese largely to the lack of the trade arrangements which from 1952 to 1957 had governed trade relations. The third trade agreement had expired in May 1957 following a breakdown in negotiations over a few, largely non-economic points. The signing of the fourth trade agreement, nearly a year later on 5 March 1958, revived optimism on the part of many Japanese for an extensive growth in the China trade. The conclusion of several commodity contracts prior to this agreement, especially the steel industry's contract with China for cumulative trade of \$280 million each way between 1958 and 1962, and numerous exchanges of technical missions have also intensified Japanese interest in the China market. But only a month after the signing of the trade agreement, the Chinese tempered Japanese expectations when they unilaterally voided the agreement, ostensibly because the Japanese Government would not honor all the terms negotiated by the private Japanese interests.

These increasing contacts and the renewed clamor for trade have been prompted in part by the relaxation of trade controls in 1957 and by unfavorable economic developments in Japan. The depressed Japanese fertilizer industry has received a boost from Chinese orders while Chinese steel orders would tend to counteract the sharp deterioration in the market for Japanese iron and steel since last year. The steel industry hopes to expand its exports on a more competitive basis by obtaining coal and iron ore from China delivered at

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prices below those presently paid more distant suppliers and thereby reducing raw material costs.

Although these developments indicate a further growth in Sino-Japanese trade, there is little or no foundation for the expectations of some Japanese that China may once again become Japan's leading trading partner. Sino-Japanese trade totaled in 1957 only \$141 million, two percent of total Japanese trade; whereas US-Japanese trade accounted for \$2.2 billion or 31 percent of total trade.

Certainly on the export side, no phenomenal growth can be foreseen. Fertilizer exports, presently the leading export to China, should increase only slowly if at all because of Chinese efforts to become self-sufficient in fertilizer production. As a result, steel products will probably become the principal export by 1962. However, the recent steel industry agreement sets the export goal for that year at only \$76 million. Although Japan is a major exporter of machinery and equipment, China has in the past depended largely upon the Bloc to fulfill its requirements. Any effort on the part of Japan to increase its machinery exports to China will face stiff competition from western Europe as well as from the Bloc. Textiles, Japan's second largest export industry and the most important prewar export to China, should find at most a small market in China during this period. The development of a Chinese chemical industry is already restricting the market in China for Japanese chemicals.

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Similarly, only a limited growth in imports from China seems likely.

Under the steel industry accord, 1962 imports of iron ore and coal will total 4.4 million tons or less than \$40 million (at present prices), only half the value of proposed steel exports. Yet, even this modest goal appears optimistic. China has expressed a need for Japanese machinery on long term credit for the expansion of its coal and iron ore production.*

Soybeans and salt are other important Chinese products Japan would import according to the steel industry accord which calls for balance trade. Japan's largest import from China now is soybeans. In 1957, Japan imported 200,000 tons, about 20 percent of China's total soybean exports. Any significant increase in Japanese imports of soybeans from China would require a radical shift in trade from western Europe and/or the Bloc or, which is less likely, an expansion of Chinese soybean production. It would take approximately 300,000 tons of soybeans in 1962 to balance the steel-coal-iron ore agreement. The extent to which China would alter its present soybean export pattern in order to increase its trade with Japan is unknown.

* It is also revealing to note that a contract concluded with India shortly after the signing of the steel agreement with China provides for Japan to supply machinery and equipment on long-term credit for the development of Indian iron ore deposits so that by 1964 India can supply Japan with two million tons of iron ore annually. The leader of the Japanese mission to India stated its preference for a long-term agreement with India over the recent Chinese offers of iron ore, referring to the unattractive prices and barter terms offered by China.

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In the case of salt, even if China should supply Japan with all its import requirements for salt, the value would be relatively small. In 1957 this would have totaled 2 million tons valued at some \$10 million!

Other commodities, such as wool, tin, pig iron, and other agricultural and mineral products, which Japan might import from China are presently largely going to the Bloc. There is little indication that China would redirect these goods to Japan. At present, in fact, China is finding it difficult to meet its export commitments to the Bloc and has had to defer for at least one year shipments of upwards of \$100 million. While China's supply situation could change considerably before 1962, it is believed likely that any radical increase in Sino-Japanese trade would reflect political factors more than economic ones.

It is obvious that to date China has used trade with Japan to further primarily its political objectives. The protracted negotiations for the fourth trade agreement and the following unilateral abrogation of the agreement can only manifest the extent to which political factors affect Sino-Japanese trade.

Obviously, it is difficult to estimate trade potentials for the next five years, and yet it seems highly unlikely that trade could rise from the present level of \$140 million to much more than \$350 million by 1962, provided all factors were favorable. If China continues to restrict trade to further its political ambitions, then 1962 trade may be considerably lower. But assuming this maximum is reached, 1962 trade will amount to about 5 percent of Japan's present total trade and obviously much less of probable 1962 trade. The lure of a tremendous Chinese market of 600 million customers still appears illusory, fostered by a misunderstanding or a deliberate disregard of